

Arizona Association of Mortgage Brokers

Arizona warns consumers of deceptive mortgage ad “buzz words”

The Arizona Department of Financial Institutions (DFI) is reminding borrowers to avoid falling prey to deceptive mortgage advertising practices. In a recent alert, regulators outlined a list of common “buzz words” found in mortgage ads that they said could indicate false advertising. Read on to learn which terms made the list.

On April 10, the Arizona Department of Financial Institutions (DFI) reminded Arizonans to avoid falling prey to deceptive mortgage advertising practices.

“Unfortunately there are still too many mortgage advertisers making deceptive claims about low rates and payments,” said DFI Superintendent Felecia Rotellini. “The first step Arizonans should take before making a mortgage decision is to understand that some mortgage ads contain misleading ‘teaser’ rates and false representations.”

DFI is looking into mortgage advertising and will take action against companies that knowingly advertise any false, misleading, or deceptive statements with regard to the rates, terms, or conditions for a mortgage loan.

Rotellini added: “Arizona law prohibits deceptions and misrepresentations, including concealing an essential or material fact in the course of the mortgage business.”

DFI wants consumers to recognize buzz words in mortgage ads and to understand all the terms and conditions of a proposed loan that trigger follow-up questions.

DFI told consumers to be aware of the following buzz words in advertisements:

- **“A Low Fixed Rate”** Ads may not tell you how long the rate will be fixed. The rate may be fixed for an introductory period only, which can be as short as 30 days. A fixed rate mortgage loan has an interest rate that remains constant throughout the life of the loan, so that the amount you pay each month remains the same over the entire mortgage term, typically 15, 20, or 30 years.
- **“Very Low Rate”** Ads could mean the **“payment”** rate or the **“interest”** rate. The interest rate is the rate used to calculate the amount of interest you will owe the lender each month. The payment rate is the rate used to calculate the amount of the payment you are obligated to make each month. Some offers advertise a low payment rate without telling you that it applies only during an introductory period. If the payment rate is less than the interest rate, you will not cover the interest due—this is called negative amortization. It means that your loan balance is actually increasing and the lender is adding the unpaid interest to the balance you owe.
- **“Very Low Payment Amount”** Ads quote a very low payment that could be an interest only loan where you pay only the amount of interest accrued each month. Eventually, you will have to pay off the principal—or you may end up owing a lump sum due at the end of the loan.
- **“Loan Amount \$300,000—Pay Only \$900 per month” “Mortgage Rates Near 30-Year Lows” “Rates as Low as 1%”** Ads do not often disclose that a rate or payment is for a very short introductory period. These are “teaser” short-term rates or payments.
- **“Important Notice From Your Mortgage Company or Important Payment Information”** Ads or mailers that contain information about your mortgage may not be from your mortgage company at all. Before responding to any offer, review it carefully to make sure you know who you are dealing with.